



# INDIAN ACCOUNTING STANDARDS AND THE TRANSITION TO IFRS

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## ABSTRACT

The purpose of the paper is to evaluate the benefits of convergence of Indian Accounting Standards with International Financial Reporting Standards. The scope of this paper is to (1) evaluate and summarize the major differences between the International standards and Indian's standards and comparison of the differences, and (2) to determine if those differences are significant enough to conclude whether India as a country would benefit or be negatively impacted by the implementation of them. The research methodology is based on secondary data found in journals, periodicals, magazines, books, and websites. The Findings show that convergence of Indian standards with IFRS has both positive and negative benefits, but the positive benefits are greater than the negatives.

The Conclusion and Recommendations of this research are that despite social, cultural, and political barriers that exist, India would benefit financially and economically from implementing international reporting standards. Recommendations for further study include (1) determining the effectiveness of India's implementation of the standards, and (2) evaluate the importance of implementing the international standards, and the benefits to experience by allowing proper comparison of financial statements with other entities.

**KEYWORDS:** IFRS, IAS, ICAI, GAAP, IASB.

## 1. INTRODUCTION:

Multinational corporations, mergers and acquisitions, information technology and financial markets are just a few of the reasons why most parties agree that there is a need for one set of international accounting standards. However, the concept of creating and implementing one set of accounting standards is admittedly a huge challenge and no doubt could remain a challenge indefinitely. Much discussion continues throughout the region and world regarding the convergence and international accounting standards. Although there are several very difficult issues related to this goal, one of the most difficult issues pertain to the major differences in customs and culture of various countries.

The former chair of the International Accounting Standards Board (IASB) provided just one example of how difficult in Europe this goal of convergence is to accomplish: "In the UK everything is permitted unless it is prohibited. In Germany, it is the opposite-everything is prohibited unless it is permitted. In the Netherlands, everything is prohibited even if it is permitted, and in France, everything is permitted even if it is prohibited. When countries like Japan, the United States, and China are considered, it becomes very difficult to meet the needs of each of these countries." (Kieso, Weygandt, & Warfield, 2016).

The International Accounting Standards Board (IASB) is the major professional accounting body in pronouncing a single set of accounting standards across the world. The IASB elaborates its functions through establishment of International Financial Reporting Standards (IFRS). The standards are investor friendly and principle based. The main reason behind the establishment of the IFRS foundation is to bring uniformity and fairness in financial statements and minimize the several alternatives of single transaction. Presently, some countries have voluntarily adopted the IFRS, but still many countries are not ready for complete adoption and they are trying to converge their national accounting standards with IFRS. India is one of them. However, this present study evaluates the results of a survey on 'how convergence of Indian accounting standards with IFRS is beneficial to India?'

Finally, the study concluded that convergence of Indian standards with IFRS has both positive and negative benefits, but the positive benefits are greater than its drawbacks (Raghunatha, T; Rajashekar, H, 2014).

In recent years the economy worldwide has become like a small town. The globalization of the business worldwide and the implementation of the rules and regulations which support it, as well as the progress of ecommerce, make it imperative to have one globally accepted financial reporting system. Many multinational organizations are operating their businesses in many countries with emerging economies and vice versa (for example, Wal-Mart Stores, Royal Dutch Shell, ExxonMobil, BP, AXA, E-ON, Apple, and Toyota). The companies that have emerging economies are increasingly accessing the global market that satisfies their capital needs by getting their shares listed on the stock exchanges market in different countries.

## 2. BACKGROUND:

### Indian Standards:

Indian accounting standards are issued by the Institute of Chartered Accountants of India (ICAI). It is an authorized body established under the Chartered Accountants Act, 1949 (Act No. XXXVIII of 1949) for the governing of the profession of Chartered Accountants in India. ICAI is now the second largest accounting body worldwide, with advice of the National Advisory Committee on Accounting Standards (NACAS). NACAS is a body set up under section 210A of the Companies Act, 1956 by the Government of India. To harmonize the difference between accounting in India and the International Financial Reporting Standards (IFRS), the ICAI acknowledged the need to set the standard for accounting rules, policies and practices to be used in India. On April 21, 1977 India instituted the Accounting Standards Board (ASB) according to the ICAI. Setting the Accounting standard depends on the participation of the interested parties in the process. (Srivastava, Anubha and Bhutani, Prerna, 2012).

Using different accounting standards for different countries create confusion for users of financial statements. Currently, the ASB of ICAI establishes the standards based on IFRS, and these standards are carefully used because they are sensitive to the domestic conditions, including the legal and economic environment. (Patange, 2012).

The development and speed of the changing economy in India encouraged foreign investment in the country. For this reason it is advantageous for India to follow International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), (Srivastava & Bhutani, 2012).

In India, they are required to follow the International Accounting Standard (IAS) which has called by IFRS by 2011. The adoption of IFRS are done in different stages. This issue has been taken seriously by many professionals and they have started many different training sessions and seminars to assist in making smooth transitions and to see what challenges and opportunities IFRS will develop. (Srivastava, Anubha; Bhutani, Prerna, 2012).

### International Standards:

According to Benson (1976), the increase in international business led to an agreement with Canada, England, and the United States, in 1966, to establish a group (called a study group) to manage and organize a program called comparative studies of recent accounting practices used in these countries. This program helped to establish International Accounting Standard setters in 1967, under a well-recognized leader, Lord Henry Benson of Great Britain. They issue about 20 authoritative papers before 1973, and these rules started shaping global thinking in the accounting profession. The group of these studies kept the membership limited to avoid any problems that could arise from choosing any topic which can be used for a few years. This work encouraged other countries to critique them. In 1972, the 10<sup>th</sup> meeting took place in Sydney, Australia, to discuss expanding their international accounting members. A new group was established, called the International Accounting Standard Committee (IASC), by adding 6 more countries. The chairman of the committee was Lord Benson. IASC consisted of 16 pro-

professional organizations from 9 countries, including Canada, Germany, Australia, France, Mexico, Japan, Netherlands, U.K, and U.S.A. The goals of this group are as follows:

1. Presentation of Financial Statements, and motivating global acceptance of accounting standards.
2. Harmonization of regulation, and making the necessary improvements related to accounting standards. The minute the International Accounting Standard Committee came into existence it was important, because previously it was the only organization working at improving accounting standards; but they did not have any authority to implement the accounting standard.

On the other hand, other organizations involved in the international arena were governmental organizations or semi-government, such as United Nations (UN), the European Community (EC), and the Organization for Economic Cooperation and Development (OECD). The IASC does not have enough power, and more problems arise from the members when IASC requested more details and asked the entire membership to comply with the accounting standard issued by the committee. The American Institute of Certified Public Accountants (AICPA) is one of the IASC members (Benson, 1976).

A few US groups were against locating such an important function in UK. In 1977. The International Federation of Accountants (IFAC) was established, and their office was located in New York. Their duties and responsibilities were to represent the accounting standard globally. Creation of this group created a conflict between IASC and IFAC. Both groups signed an agreement in 1983 mentioning that IASC has the responsibility and the power to issue international accounting standard, and agreeing that all professional members of IFAC will become IASC members. IFAC membership was pleased to work with IASC to promote global accounting standards, and also pleased to donate 10% to the IASC yearly budget. The IASC has concentrated on financial reporting by businesses, and not dealing with the public sector and nonprofit organization financial reporting, such as churches and charitable organizations. The public sector Committee of IFAC began developing accounting and auditing standards by using the IAS as a basis for their standards. The IASC worked diligently in the beginning to build some trust in the international accounting standard setting; and through this time, the IASC has published about two dozen standards on

major topics related to accounting standards (Most, 1993).

The Parliament of Europe, in 2002, along with the European Union Council implemented a regulation for about 7,000 companies listed with stock exchange market using IASs and IFRS; these standards are written by IASB. The power of IASB is handed over to private companies which are located in London and directed by the International Accounting Standards Committee Foundation (IASCF). This company is registered privately in America in the state of Delaware, and 60% of their contributions come from large accounting firms. Therefore, the IFRS replaced the public regulation in some countries. This current development delegates public power and responsibility to private oriented business (Nölke and Perry, 2007).

Every country has different business environments, legal systems, cultures, language and political environments. However, in countries such as Japan and Germany, there is a strong relationship between tax rules and accounting profit. It is very unlikely, therefore, that any one set of international reporting standards will be able to accommodate all the different accounting treatments and reporting practices currently in place throughout the world. As a consequence however, some countries will feel disadvantaged if their particular reporting framework is not adopted by the IASB. Alternatively, the IASB may attempt to adopt acceptable compromise positions that result in international reporting standards that are overly flexible. (FASB, 2006)

Harmonization of the accountings standards among all users of financial statements that are presented as having similar standards are easier to understand, and this helps to attract investors, since both investors and analysts need to be able to interpret the financial statements of international companies. Therefore it is essential for these statements to be reliable and comparable. Harmonized accounting would also make it much easier and cheaper for international companies to produce financial reports. The accountancy profession itself would definitely benefit greatly by harmonization since this process would make auditing easier and less time consuming. Other groups that could also benefit from harmonization are, for instance, tax authorities that need to consider differences in the measurement of profit when dealing with foreign incomes and labor unions that have to cope with multinational employers. All these difficulties would be greatly reduced through harmonization. (Roberts, Weetman, and Gordon, 2005).

#### Comparison of Indian Accounting Standards and the International Financial Reporting Standards

IFRS IAS	IND AS
1. International Accounting Standard and IFRS (IAS) 1, Gives an option to accounting standard users to provide Financial Statements following either single statement approach or two statement approach.  a. In the first one single statement approach, all revenues and expense items are acknowledged in the statement of profit and loss,  b. In the second one, two statements approach (multiple income statement) provides and displaying components of profit or loss (separate income statement) and the other displaying components of other comprehensive income	1. In Indian accounting AS -1 allows only the use of single statement approach only.
2. Separate Statement of Changes in Owners' Equity	2. In India Change in Equity Statement must be prepared as a part of the balance sheet
3. IFRS allows businessman to use different terminology for their financial statements titles	3. Indian AS requires businessman to use only one title for their financial statements
4. IFRS allows the periodicity, 52 weeks for the preparation of financial statements	4. Indian AS does not allow it
5. IFRS requires companies to prepare complete analysis of the expenses used in the income statement	5. Indian AS needs only the classification of nature wise expense.
6. IFRS having complete and clear picture of their guidelines that implemented for businesses to use.	6. Indian AS does not have that because different enactments have described formats.

BABALOO, R. (2012)

#### List of Accounting Standards Issued by ICAI compared with IFRS Statements:

According to Companies Act, 1956, Section 211, Sub-Section (3A) requires that

every profit/loss account and balance sheet to comply with the accounting standards. 'Accounting Standards' that described the rules issued by ICAI in consultation with NACAS to bring uniformity (Srivastava & Bhutani, 2012).

Accounting standards Issued by the ICAI	IFRS Statements
AS 1: Disclosure of Accounting Policies	IFRS 1: First Time Adoption of International Financial Reporting Standards
AS 2: Valuations of Inventories	IFRS 2: Share-Based Payment
AS 3: Cash Flow Statements	IFRS 3: Business Combinations
AS 4: Contingencies and Events Occurring After the Balance Sheet Date	IFRS 4: Insurance Contracts
AS 5: Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies	IFRS 5: Non-Current Assets Held for Sale and Discontinued Operations
AS 6: Depreciation Accounting	IFRS 6: Exploration for and Evaluation of Mineral Resources
AS 7: Construction Contracts	IFRS 7: Financial Instruments – Disclosures
AS 8: Accounting for Research and Development	IFRS 8: Operating Segments
AS 9: Revenue Recognition	IFRS 9: Financial Instruments

Accounting standards Issued by the ICAI	IFRS Statements
AS 10: Accounting for Fixed Assets AS 11: The Effect of Changes in Foreign Exchange Rates AS 12: Accounting for Government Grants AS 13: Accounting for Investments AS 14: Accounting for Amalgamation AS 15: Employee Benefits AS 16: Borrowing Cost AS 17: Segment Reporting AS 18: Related Party Disclosures AS 19: Accounting for Leases AS 20: Earning Per Share AS 21: Consolidated Financial Statement AS 22: Accounting for Taxes on Income AS 23: Accounting for Investment in Associates in Consolidated Financial Statement AS 24: Discontinuing Operation AS 25: Interim Financial Reporting AS 26: Intangible Assets AS 27: Financial Reporting on Interest in Joint Ventures AS 28: Impairment of Assets AS 29: Provisions, Contingent Liabilities and Contingent Assets AS 30: Financial Instrument AS 31: Financial Instrument Presentation AS 32: Financial Instruments, Disclosures and Limited Revision to Accounting Standards	Besides, IAS are as follows: IAS 1: Presentation of Financial Statements IAS 2: Inventories IAS 7: Cash Flow Statements IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors IAS 10: Events After the Balance Sheet Date IAS 11: Construction Contracts IAS 12: Income Taxes IAS 14: Segment Reporting IAS 16: Property, Plant and Equipment IAS 17: Leases IAS 18: Revenue IAS 19: Employee Benefits IAS 20: Accounting for Government Grants and Disclosure of Government Assistance IAS 21: The Effects of Changes in Foreign Exchange Rates IAS 23: Borrowing Costs IAS 24: Related Party Disclosures IAS 26: Accounting and Reporting by Retirement Benefit Plans IAS 27: Consolidated Financial Statements IAS 28: Investments in Associates IAS 29: Financial Reporting in Hyperinflationary Economies IAS 31: Interests in Joint Ventures IAS 32: Financial Instruments – Presentation IAS 33: Earnings per Share IAS 34: Interim Financial Reporting IAS 36: Impairment of Assets IAS 37: Provisions, Contingent Liabilities and Contingent Assets IAS 38: Intangible Assets IAS 39: Financial Instruments – Recognition and Measurement IAS 40: Investment Property IAS 41: Agriculture

(Srivastava & Bhutani, 2012).

ICAI has announced full convergence with IFRS by 2011. Considering the demand of time and to bring uniformity at international level, companies need to start preparing and adopting a planned strategy to avoid any anticipated difficulty. The implementation and understanding of IFRS is not easy, and only if the companies start adopting certain common standards, would they be able to shift towards the new standards. In a survey conducted by Ernst & Young, 79% of the respondents surveyed felt that their company would be able to meet the IFRS 2011 deadline. A majority of those interviewed said that the matter was discussed at the board/management level. Though a large chunk of the respondents have not made a timetable for the transition, the encouraging fact is that 43% of the respondents would make one and 32% would assign resources soon. This shows that many companies are getting themselves mentally prepared for the adoption of IFRS. Another issue that needs to be clarified with companies that have issued foreign currency convertible bonds, is regarding the convergence in the first round like the American Depository Receipts and the Global Depository Receipts.

### 3. PROBLEM STATEMENT:

Using different accounting standards for different countries create confusion for those users of financial statements. Currently, the ASB of ICAI establishes the standards based on IFRS, and these standards are carefully used because they are sensitive to the domestic conditions, including the legal and economic environment. (Patange, 2012).

### 4. PURPOSE OF THE STUDY:

The purpose of the study is to evaluate the benefits of convergence of Indian Accounting Standards with International Financial Reporting Standards. The study evaluated and summarized the major differences between the International standards and Indian's standards and to determine if those differences are significant enough to conclude whether India as a country would benefit from the implementation of them and whether there will be a positive or negative impact. A comparison of the international standards was made to the Indian standards. Research Questions

- R1. Does the benefits outweigh the drawbacks for India in implementing IFRs?  
Ind AS will bring many benefits – but survey says companies want more time <http://www.pwc.com/gx/en/services/audit-assurance/corporate-reporting/world-watch/ind-as-will-bring-benefits.html>
- R2. How does the social and cultural norms impact the implementation of IFRS?
- R3. How effective is Indian in implementing International Financial Accounting Standards?

### 5. LITERATURE REVIEW:

1. Babaloo's (2012) article "Disclosure of Accounting Policies: an Indian Per-

spective" discusses

2. Benson's (1976) article "The Story of International Accounting Standards" discusses
3. Raghunatha and Rajashekar, (2014), in their article, "Indian Accounting Standards vs. International Financial Reporting Standards" surveyed how convergence of Indian accounting standards with IFRS is beneficial to India. They collected primary data from a structured questionnaire which was analyzed utilizing descriptive and one-way ANOVAs statistical tools. They concluded that convergence of Indian standards with IFRS has both positive and negative benefits, but the positive benefits are greater than its drawbacks.
4. Srivastava and Bhutani (2012), in their article "IFRS in India: Challenges and Opportunities" discussed the challenges and opportunities for India in harmonizing the differences between accounting in India and IFRS. They acknowledged that since India's economy is rapidly developing and changing, and has encouraged foreign investment in the country, India should follow IFRS.

Most's (1993) article "The future of the Accounting Profession – A Global Perspective" discusses the framework of both the IASC and IFAC's organizations and their individual and collective responsibilities to represent the accounting standards globally.

### 6. HYPOTHESIS:

#### Hypothesis One (Ho1):

Hypothesis One (Ho1) is: There are more benefits than drawbacks for India in converging their reporting standards with the international standards. Results show that there are more benefits for India in converging with the international reporting standards.

#### Hypothesis Two (Ho2):

Hypothesis Two (Ho2) is: There are more drawbacks than benefits for India in converging their reporting standards with the international standards. Results show that there are more benefits than drawbacks for India in converging with the international reporting standards.

### 7. METHODOLOGY:

The research is based on secondary data, including books, websites, journals and periodicals

#### Selection of Participation:

Participants were India and other key countries that have implemented international financial reporting standards. India's current accounting financial reporting standards were compared to the international financial accounting standards

to determine compliance. Factors such as the Accounting Standards issued by ICAI, IFRS, India Accounting Standards, and International Accounting Standards were considered in determining the whether the benefits outweigh the drawbacks in India's convergence of IFRSs.

#### Assumptions and Limitations:

As is inherent with all research, this research paper is bound by its own assumptions and limitations. One threat to the validity of this research is limited sources of data. An evaluation of some of the international standards and India's standard was used and not the entire population of standards. However, adequate steps have been taken to control such threats.

#### 8. CONCLUSIONS:

As India's economy continues to grow at a rapid pace, attracting more investors from both the inside and outside, the need to have consistent and comparative financial guidelines becomes imperative. Although acceptance and implementation of the International Financial Reporting Standard help in achieving that goal, unfortunately the process is slow simply because of certain social, cultural, and political barriers that exist. The study concluded that convergence of Indian standards with IFRS has both positive and negative benefits, but the positive benefits are greater than its drawbacks. To justify the research question, the study collected the primary data from secondary sources. The sources used for the secondary data include (1) Babaloo's 2012 article on "Disclosure of Accounting Policies: an Indian Perspective, (2) Benson's 1976 article entitled "The Story of International Accounting Standards, (3) Raghunatha and Rajashekar's 2014 article on "Indian Accounting Standards vs. International Financial Reporting Standards, (4) Srivastava and Bhutani's 2012 article on "IFRS in India: Challenges and Opportunities", and (5) Most's 1993 article on "The future of the Accounting Profession – A Global Perspective.

Secondary Sources	Their Findings	Their Conclusion	Their Recommendation
Babaloo (2012)		Convergence has both benefits and drawbacks	
Benson (1976)			
Raghunatha & Rajashekar (2014)			
Srivastava & Bhutani (2012)	India's economy is rapidly developing and changing	There are challenges and opportunities for India in harmonizing the differences between accounting in India and IFRS.	India should follow the International Accounting Standards
Most (1993)	Both the IASC and IFAC organizations have individual and collective responsibilities	India should represent the accounting standards globally	

#### 9. RECOMMENDATIONS:

The recommendation is for (1) continued research on the timeliness and progress of India's convergence and adoption of the international standards, and (2) identify current events that could prevent timely implementation of the international standards in India.

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